

# Exhibit E

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q****QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2006

Commission File Number 0-22999

**Tarragon Corporation**

(Exact name of registrant as specified in its charter)

Nevada

94-2432628

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

1775 Broadway, 23<sup>rd</sup> Floor, New York, NY

10019

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code (212) 949-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐Accelerated filer ☒Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Common Stock, \$.01 par value

28,387,569

(Class)

(Outstanding at May 1, 2006)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

NOTE 3. VARIABLE INTEREST ENTITIES

We have identified four joint ventures, over which we exercise significant influence but do not control, that qualify as variable interest entities ("VIEs") and of which we are the primary beneficiary. These four entities have been consolidated in accordance with FIN 46R. Their assets and liabilities were recorded at carrying value. The four entities consist of two limited liability companies that are developing rental apartment communities, one with 328 units and the other with 90 units, one limited liability company engaged in homebuilding with a 215-unit age-restricted traditional new development, and one limited liability partnership engaged in land development. The aggregate total assets of these VIEs were \$115.7 million as of March 31, 2006. Of the total assets, \$25 million is classified as real estate held for investment and \$83.6 million is classified as homebuilding inventory in the accompanying March 31, 2006, Consolidated Balance Sheet. Gross revenue of these VIEs for the three months ended March 31, 2006, contributed \$1.6 million to homebuilding sales. Of the \$83.5 million of the debt of these entities, \$36.4 million is non-recourse to the general assets of Tarragon.

NOTE 4. INVESTMENTS IN AND ADVANCES TO PARTNERSHIPS AND JOINT VENTURES

Investments in and advances to partnerships and joint ventures consisted of the following:

	Profits Interest	Carrying Amount	
		March 31, 2006	December 31, 2005
801 Pennsylvania Avenue	50%	\$ —	\$ —
Ansonia Apartments, L.P.	89%	—	—
Choice Home Financing, L.L.C.	50%	304	425
Delaney Square, L.L.C.	50%	—	—
Hoboken joint ventures:			
900 Monroe Street Development, L.L.C.	63%	4,309	4,134
Block 106 Development, L.L.C.	63%	11,324	11,228
Block 99/102 Development, L.L.C.	55% <sup>(1)</sup>	8,205	15,956
Block 144 Development, L.L.C.	63%	4,082	4,026
Madison Warehouse Development, L.L.C.	63%	11,034	10,918
TDC/Ursa Hoboken Sales Center, L.L.C.	48%	1,458	1,455
Thirteenth Street Development, L.L.C.	50%	—	—
Upper Grand Realty, L.L.C.	50%	—	—
Keane Stud, L.L.C.	50%	5,621	—
LOPO, L.P.	50%	8,967	6,251
Merritt Stratford, L.L.C.	50%	278	256
Orchid Grove, L.L.C.	50%	4,017	2,774
Orion Towers Tarragon L.L.P.	70% <sup>(2)</sup>	—	15,662
Park Avenue Tarragon, L.L.C.	50%	1,055	5,456
Tarragon Calistoga, L.L.C.	80%	631	632
		<u>\$61,285</u>	<u>\$ 79,173</u>

(1) In January 2006, Tarragon received \$5.6 million, reducing its investment in Block 99/102 Development, L.L.C., when this entity closed a construction loan. In April 2006, we acquired the 15% interest of one of our partners, increasing our interest in profits to 70%.

(2) Due to a change in control of the partnership, we consolidated this entity during the first quarter of 2006.

In accordance with Financial Accounting Standard Board's Emerging Issues Task Force's 96-16 Consensus, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights" and its 04-5 Consensus, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or

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TARRAGON CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

## NOTE 4. INVESTMENTS IN AND ADVANCES TO PARTNERSHIPS AND JOINT VENTURES (Continued)

Similar Entity When the Limited Partners Have Certain Rights,” we account for our investments in the above partnerships and joint ventures using the equity method.

We have guaranteed three construction loans and one land loan of four unconsolidated joint ventures as of March 31, 2006. Our guarantee of these four loans is limited to the fully funded debt of \$209.3 million. At March 31, 2006, there was \$91.3 million outstanding, all of which is guaranteed. We have recorded liabilities totaling \$2 million in connection with three of these guarantees. Fair values of the other guarantees are not significant.

Below are unaudited summarized financial data for Ansonia Apartments and Park Avenue Tarragon individually and combined for our other unconsolidated partnerships and joint ventures that are not individually significant for the three month periods ended March 31, 2006 and 2005.

*Three Months Ended March 31, 2006*

	Ansonia Apartments	Park Avenue Tarragon	Other	All Partnerships
Homebuilding sales	\$ —	\$ 11,131	\$ 11,555	\$ 22,686
Cost of homebuilding sales	—	(10,882)	(10,456)	(21,338)
Rental revenue	15,229	—	377	15,606
Mortgage banking income	—	—	465	465
Property and other operating expenses	(7,787)	—	(35)	(7,822)
Interest expense	(6,621)	—	(66)	(6,687)
Depreciation expense	(2,746)	—	(51)	(2,797)
Net income (loss)	(1,925)	249	1,789	113
Elimination of interest and management fees paid to Tarragon	504	—	—	504
Net income (loss) before interest and management fees paid to Tarragon	<u>\$ (1,421)</u>	<u>\$ 249</u>	<u>\$ 1,789</u>	<u>\$ 617</u>
Equity in income of partnerships and joint ventures:				
Tarragon's share of net income (loss) before interest and management fees paid to Tarragon	\$ (1,272)	\$ 358	\$ 787	\$ (127)
Loss in excess of investment unrecognized	1,272	—	—	1,272
Equity in income of partnerships and joint ventures	<u>\$ —</u>	<u>\$ 358</u>	<u>\$ 787</u>	<u>\$ 1,145</u>

- (1) In accordance with APB No. 18, “The Equity Method of Accounting for Investments in Common Stock,” we have discontinued recording our share of Ansonia’s losses because our investment balance is zero and we have not guaranteed Ansonia’s obligations. Our share of any future income generated by Ansonia would be reduced by these losses.

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## NOTE 4. INVESTMENTS IN AND ADVANCES TO PARTNERSHIPS AND JOINT VENTURES (Continued)

Three Months Ended March 31, 2005

	Ansonia Apartments	Park Avenue Tarragon	Other	All Partnerships
Homebuilding sales	\$ —	\$ 1,830	\$ 54,625	\$ 56,455
Cost of homebuilding sales	—	(1,411)	(35,021)	(36,432)
Rental revenue	5,326	—	3,054	8,380
Property and other operating expenses	(2,626)	—	(1,365)	(3,991)
Interest expense	(1,803)	—	(1,342)	(3,145)
Depreciation expense	(795)	—	(489)	(1,284)
Income from continuing operations	102	419	19,462	19,983
Discontinued operations				
Loss from operations <sup>(1)</sup>	—	—	(263)	(263)
Loss on sale of real estate	—	—	(350)	(350)
Net income	102	419	18,849	19,370
Elimination of interest and management fees paid to Tarragon	270	—	92	362
Net income before interest and management fees paid to Tarragon	<u>\$ 372</u>	<u>\$ 419</u>	<u>\$ 18,941</u>	<u>\$ 19,732</u>
Equity in income of partnerships and joint ventures:				
Tarragon's share of net income before interest and management fees paid to Tarragon	\$ 261	\$ 177	\$ 7,878	\$ 8,316
Cash distributions in excess of investment	99	—	15	114
Equity in income of partnerships and joint ventures	<u>\$ 360</u>	<u>\$ 177</u>	<u>\$ 7,893</u>	<u>\$ 8,430</u>

(1) Revenue presented in discontinued operations was \$172,000 in 2005.